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SUBJECT: Economic Briefing for February 2005

1. This cable summarizes selected recent economic events in Taiwan in February 2005:

--Cross-Strait charter flights for cargo

--WTO and anti-dumping measures

--Key economic indicators for January 2005

--NT dollar appreciation

-- High-tech firms post huge sales growth

--Boeing contracts Taiwan aerospace firm to refit 747's

Cross-Strait Charter Flights for Cargo

2. During the Taiwan Investors Spring Festival on February 16, 2005, President Chen Shui-bian announced government plans to promote cross-Strait cargo flights. Cargo flights would follow the pattern of the non-stop passenger charter flights during the 2005 Lunar New Year Holiday and pass through Hong Kong or Japanese airspace but without any intermediary stop. In addition, Premier Frank Hsieh expressed his interest in expanding cross-Strait marine cargo transportation to and from Kaohsiung's Free Trade Port Zone. The expanded program would permit imports from China and processing of such imports for re-exports from the zone. In response, China's Taiwan Affairs Office (TAO) offered to consider another round of holiday charter flights, but did not reply to the offer of regular cargo flights. On February 25, Taiwan's Mainland Affairs Office rejected the TAO call to consider another round of holiday charter flights and criticized the lack of any "substantive" response to Taiwan's offer of regular cargo flights. (Note: Hu Jintao's March 4 "Four Points" speech on Taiwan included the statement that "Non-governmental trade organizations on both sides of the Taiwan Strait may exchange views on providing cross-Strait cargo charter flight service." End note.)

Taiwan's Role in FAN

3. Taiwan has been an active participant in activities organized by the "Friends of Anti-Dumping Negotiation" (FAN), an informal group of WTO members formed three years ago opposed to the excessive use of anti-dumping measures. FAN seeks to remedy what it sees as overly relaxed criteria used by some economies in assessing import damages to domestic industries. A Taiwan delegation headed by Deputy Director General of the Board of Foreign Trade James Wu attended a FAN brainstorming meeting at the South Korean Mission in Geneva prior to a WTO Anti-Dumping Committee session February 22-25. The FAN agenda included an action plan for 2005 designed to reduce frequency, magnitude, scope, and duration of anti-dumping measures. Also covered in the agenda were efforts to win support from non-FAN members and methods of dispute settlement.

4. FAN includes 17 members -- Hong Kong, Japan, South Korea, Singapore, Thailand, Chinese Taipei, New Zealand, Norway, Switzerland, Turkey, Canada, Brazil, Chile, Columbia, Costa Rica and Mexico. South Korea, Chinese Taipei and Japan have each been the target of over 100 anti-dumping investigations over the past decade.

January Statistics Skewed by Seasonal Factors

5. Taiwan's exports and industrial production statistics for January show substantial year-on-year growth. This apparent growth resulted mainly from the fact that in 2004

the Lunar New Year holiday fell in January, while in 2005 this nine-day holiday fell in February. Dr. Chou Chi, Director of the Economic Forecasting Center of the Chunghua Institution for Economic Research (CIER), predicted that exports and industrial production in February 2005 would post drastic drops because of the long holiday. Dr. Chou indicated that this "seasonal factor" could be removed by comparing combined statistics for January and February 2005 with corresponding figures a year earlier.

Economic Slowdown to Continue

16. In late February 2005, the Directorate General of Budget, Accounting and Statistics (DGBAS) adjusted downward Taiwan's 2004 economic growth from 5.93% estimated in November 2004 to 5.71%. The DGBAS also reduced its forecast for 2005 economic growth from 4.56% forecast in November 2004 to 4.21%. Deputy Director of the DGBAS Statistical Bureau Tsai Hung-kun attributed the downward adjustments mainly to appreciation of the NT dollar (NTD) which rose from over NT\$34 per US dollar (USD) in the middle of 2004 to NT\$31 per USD in late February 2005. According to Director General Tsai, China's currency peg to the USD has prompted some Taiwan manufacturing firms to shift production from their plants on Taiwan to production bases in China. He anticipated export growth would slow from a double-digit rate in 2004 to a single-digit level in 2005. He also expected private investment growth to slow from over 30% in the first half of 2004 to 8% in Q3 2005 and 4% in Q4 2005. The real GDP growth forecast for the first half of 2005 is now 4.1%, compared with 7.3% real GDP growth achieved in the first half of 2004.

HSIP Keeps Laying Golden Eggs

17. Manufacturing firms located at Taiwan's Hsinchu Science-based Industrial Park (HSIP) reported a whopping growth of 27% in their combined sales revenues to reach a total of NT\$1,859 billion in 2004. Integrated circuit (IC) companies generated the bulk of the park's sales revenues accounting for 68.5% or NT\$744.1 billion. Among the six component industry categories in the park, precision machinery manufacturers posted the highest growth of 60%. Optoelectronics makers and IC companies enjoyed the second highest growth of 39%. Computer and computer peripheral makers and telecom manufacturers saw growth of 3% and 10%, respectively.

18. Exports from HSIP in 2004 grew 27% to NT\$495.8 billion while imports shot up 77% to NT\$392.8 billion. The top five export destinations in 2004 were: China 20%; Hong Kong 20%; Japan 12%; the United States 11%; and South Korea 9%. Major sources of imports to HSIP remained the United States and Japan, accounting for 37% and 20% of the HSIP's total imports. The other top sources were Singapore 8%, Hong Kong 7%, and South Korea 3%.

EVA Subsidiary to Refit 747's for Boeing

19. Boeing has contracted Evergreen Aviation Technologies Corporation (EGAT), a subsidiary of the EVA Airways Corporation, to refit three 747 passenger planes as special 747-400 large cargo freighters (LCFs). These LCF's will be used to transport large components of Boeing's newly designed 787 Dreamliners from France, Japan, and the United States to the 787's assembly site in Spain. This deal marks a significant advance for Taiwan's aerospace industry and establishes a foundation for future aircraft refitting projects. The design of the 747 LCF is considered one of Boeing's most valuable corporate secrets. Boeing's decision to work with EGAT not only reflects Boeing's confidence in Taiwan's technological capabilities but also in EGAT's ability to protect the intellectual property involved.

110. The refitting will be carried out at the EGAT facilities at Taipei International Airport. A Boeing press release estimated the cost of refitting each aircraft at US\$25 million. The first of the 747's slated for refitting was just purchased by Boeing from Taiwan's China Airlines in December 2004. EGAT and Boeing signed a refitting contract on February 18 in Taipei.

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